CARLING O'KEEFE LIMITED ANNUAL REPORT 1985

VANCOUVER

CALGARY

TORONTO

1984/85 Expansion

Across Canada, our breweries have been modernized and expanded to provide increased capacity and efficiency for the production of our brands.

CARLING O'KEEFE LIMITED

ANNUAL REPORT

1985

SUMMARY OF OPERATIONS

	1985	1984	1983
BEER			
Sales–hectolitres	5,668,000	6,254,000	5,397,000
Sales revenue	$833,449,000	$869,287,000	$709,820,000
WINE			
Sales–hectolitres	222,000	226,000	235,000
Sales revenue	$ 57,731,000	$ 59,348,000	$ 58,238,000
OIL AND GAS			
Sales–gas (10^3m^3)	143,000	129,000	132,000
–oil and other (m^3)	87,000	82,000	70,000
Sales revenue	$ 23,376,000	$ 19,831,000	$ 16,169,000
CONSOLIDATED			
Sales revenue	$914,556,000	$948,466,000	$784,227,000
Earnings	$ 15,694,000	$ 54,320,000	$ 38,069,000
Earnings per common share	63¢	$2.40	$1.65
Dividends per common share	46¢	37¢	26¢

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Report to the Shareholders

The fiscal year ended March 31, 1985 was a challenging year for Carling O'Keefe Limited and its subsidiary companies.

It was a particularly difficult year for Carling O'Keefe Breweries of Canada Limited. Lack of growth in the Canadian beer market and the success which had been achieved by the company in the 1984 fiscal year resulted in a significant increase in the level of competition in the brewing industry. The increase in competition took the form of new brands, new packaging, including the extension of private mould bottles to major brands, and an increase in the cost of marketing activities, particularly those related to sports. As a result, operating and marketing costs increased. The company was unable to recover the cost increases through price increases and profitability declined from the previous year. These conditions prevailed in the entire Canadian brewing industry, where overall profitability was significantly below traditional levels.

For much of the year, the company was unable to fully supply the market with the required products and packages. In certain plants, the existing equipment was not capable of producing the new type of packaging. Although the expansion and renewal of the production facilities was underway, it was not completed in time for the summer, which is the most important period in the year for beer sales. In addition, the disruptions caused by the construction programme resulted in inefficiencies and interruptions in production at the plants involved.

During the year, it became evident that the consumer in Canada preferred distinctive bottles and that the industry compact bottle was no longer acceptable to the majority of consumers. The various marketing activities undertaken by the company were insufficient to hold market share, as volume moved to brands in the new types of packaging. Accordingly, a decision was taken that the compact bottles used by the company would have to be replaced, and $20,600,000 ($11,700,000 after tax or 54¢ per common share) was provided for the resulting bottle write-off. The provision covered the compact bottles in use by both Carling O'Keefe Breweries of Canada Limited and Jordan & Ste-Michelle Cellars Ltd., which used the compact bottle for cider.

In addition, the company's operations in Ontario were shut down for approximately four weeks in March, due to an industry labour dispute. As a result of all of these factors, company sales volume declined by 11% and significantly lower earnings were reported.

Century Importers, Inc., the Corporation's subsidiary which is the sole distributor in the United States for O'Keefe, Old Vienna and Cinci, had a satisfactory year until the Ontario labour dispute interrupted product supply. As a result, the company's sales volume declined from last year.

Beamish & Crawford plc, the Irish brewing subsidiary, had an excellent year, with increased share of market, sales volume, sales revenue and earnings.

Jordan & Ste-Michelle Cellars Ltd. reported lower sales volume, sales revenue and earnings. Sales of Canadian produced wines declined for the second year in a row as a result of continued intense competition from imported wines. These foreign wines are extremely price competitive, due to a subsidized cost base which keeps selling prices artificially low and the strength of the Canadian dollar relative to European currencies. In order to remain competitive with imported wines, the company was unable to raise selling prices to cover cost increases, and profit margins declined. The problems in the Canadian wine industry and the Canadian grape growing industry will persist until the respective levels of government in Canada take action to protect the domestic industry against artificially low priced imported products. During the year, Jordan & Ste-Michelle defended its position in the table wine segment of the market by launching new brands and remaining price competitive. Increased emphasis was also placed on the refreshment beverage category, where the Canadian industry can compete on an equal basis.

Star Oil & Gas Ltd. concentrated its efforts on Canada, where improvements in government

regulations and incentives provided the basis for better operating results. The company reported increased production of oil and natural gas and increased sales revenue and earnings. In March 1985, the Government of Canada and the Governments of the producing Provinces of British Columbia, Alberta and Saskatchewan announced that an agreement had been reached concerning energy pricing and taxation. Effective June 1, 1985, this agreement will deregulate crude oil pricing in Canada and will, over time, eliminate the more onerous aspects of the National Energy Program. While it is impossible to accurately forecast the final effect of the agreement, it is believed that the changes will prove to be beneficial to the oil and gas industry in Canada.

The Corporation's two professional sports franchises had satisfactory years. The Toronto Argonauts of the Canadian Football League finished first in the Eastern Division, but were defeated in the sudden death playoff game for the Division title. The Quebec Nordiques finished seventh in the National Hockey League overall standings for the year and reached the semi-finals of the Stanley Cup playoffs, defeating their intra-provincial rivals, the Montreal Canadiens, enroute. Both of the franchises reported improved financial results from the previous year.

FINANCIAL RESULTS

Consolidated earnings for the year were $15,694,000, or 63¢ per common share, compared to $54,320,000, or $2.40 per common share, for the year ended March 31, 1984. Consolidated sales revenue for 1985 was $914,556,000, compared to $948,466,000 for 1984, a decrease of $33,910,000, or 4%.

The continuation of the major capital investment programme in the Canadian brewing operations resulted in a significant increase in capital expenditures to $124,457,000, compared to $73,800,000 last year.

As well as utilizing cash generated from operations to finance these capital additions, $62,000,000 was borrowed under floating rate revolving credit arrangements which had been entered into with the Corporation's bankers. Because of uncertainty as to the future course of interest rates and the likely timing of the repayment of loans, it was considered advisable at this time to borrow under lines of credit rather than negotiate longer term borrowings at fixed rates.

Dividends per common share increased from 10¢ to 12¢ per quarter, commencing with the payment made October 1, 1984, for a total payout during the fiscal year of 46¢ per common share.

BOARD OF DIRECTORS

Sir David Nicolson, who had served as a Director of the Corporation since October 1978, resigned effective December 31, 1984 in order to pursue other business interests. On behalf of the Board of Directors, I would like to thank Sir David for his service to the Corporation.

In April 1985, Sir Robert Crichton-Brown, K.C.M.G., C.B.E., T.D., Chairman of Rothmans International p.l.c., was appointed to the Board.

OUTLOOK

There continues to be considerable concern about the economic situation in Canada. While the rate of inflation has held at approximately 4%, interest rates remain high, the level of unemployment is unacceptably high and government deficits remain extremely large, with the implicit threat of the effect of these high deficits on future rates of interest and inflation. These economic factors and the changing demographics of the Canadian population are not favourable to beer sales, and little or no growth in the Canadian brewing industry is expected.

However, our subsidiary companies are well positioned for improved results in the future.

Carling O'Keefe Breweries of Canada Limited has a strong lineup of well known brands. Production facilities have been modernized and are among the most efficient in Canada, with the capability of producing a variety of packages to meet consumer demand. Advertising and promotional vehicles, particularly in the sports area, represent a marketing package which is second to none. These factors will allow the company to be fully competitive in all aspects of the brewing business in Canada.

With the completion of the expansion of the Toronto plant, the company will be able to fully supply the requirements of Century Importers, Inc. for the first time in three years. This will provide the opportunity for a marketing programme in the United States to increase the company's share of this important market.

Beamish & Crawford plc has firmly established itself in the growing segment of the Irish brewing industry. With two of the best known lager brands in Europe, it is in an excellent position to continue to increase sales and earnings.

Jordan & Ste-Michelle Cellars Ltd. has reacted positively to the changed environment in the Canadian wine industry and is working to expand its sales in the refreshment beverage category, both in Canada and the United States, while maintaining its share of the table wine market pending a resolution of the existing problems in that segment.

As a result of the agreement on energy prices and taxation, the outlook for the oil and gas industry in Canada is now more positive than it has been since the onset of the National Energy Program in 1980, and Star Oil & Gas Ltd. should benefit from the improved environment.

In the current year, it will be the objective of the Corporation to regain sales momentum and earnings growth in the Canadian brewing and wine operations, and to continue the success which has been achieved in the Irish brewing and the oil and gas operations.

It is recognized that this will represent a significant challenge because of the problems which are inherent in the Canadian brewing and wine industries. However, I believe that we will be able to build upon the efforts of the past year and return to a growth situation. It will continue to be our policy to provide only the highest quality of products to our customers and the highest level of service to our shareholders.

APPRECIATION

The 1984/85 fiscal year was a particularly challenging and difficult year for Carling O'Keefe Limited and its subsidiaries. On behalf of the Board of Directors, I would like to thank our employees for their hard work, dedication and support, and our suppliers who provided us with a great deal of co-operation and assistance in meeting our requirements. I would also like to thank our shareholders for their confidence and support. With the continued efforts of all of these people, I am sure that we can look forward to improved results in the future.

S. Roderick McInnes
Chairman, President and Chief Executive Officer

May 22, 1985

Review of Operations

BREWING OPERATIONS–CANADA

Financial Year Ended March 31	1985	1984	1983
Sales–hectolitres	5,340,000	5,990,000	5,150,000
Sales revenue	$778,746,000	$824,103,000	$661,761,000
Earnings before interest and income taxes	$ 4,821,000	$ 70,938,000	$ 61,881,000
Earnings per hectolitre	90¢	$11.84	$12.02

Sales volume of the Canadian brewing industry increased only marginally over last year. The lack of growth was attributed to continued high levels of unemployment, particularly in the segment of the population which represents the most significant consumers of beer, and high retail prices for beer, due largely to the level of taxes included as part of the selling price. The lack of growth, together with the success that was achieved by Carling O'Keefe in the 1984 fiscal year, resulted in an unprecedented level of competition in the brewing industry.

A significant part of this competition took the form of numerous changes in packaging. Competitors converted major brands from the industry compact bottle to a variety of private mould bottles of various sizes and closures. The aluminum can became a significant package in most provincial markets and there was continued growth in the low priced beer segment, particularly in western Canada. In virtually every month of the fiscal year, packaging changes, new products and price changes appeared in the various provincial markets. Competition was not limited only to the national brewers, as regional brewers were also very aggressive, particularly in Alberta and British Columbia, both in draught and in the low priced beer segment. In addition, significant quantities of beer imported from the United States were sold in British Columbia and Alberta at extremely low prices.

During the year, it became evident that the consumer had a strong preference for distinctive bottles, and the decision was taken that the company would have to replace its existing supply of compact bottles. A provision of $20,000,000 before tax was made for the cost of writing off these bottles.

Sales volume for the year suffered from product shortages caused by disruptions at the plants as a result of the major construction programme. The installation of new equipment inevitably interrupted operations and product supply.

The extensive capital investment programme to renew and expand the production facilities, which was initiated during the 1982 fiscal year when the demand for the company's products exceeded production capabilities, will be completed by the summer of 1985. In addition to the projects originally undertaken to increase brewing and bottling capacity, additional funds were committed to install new canning facilities in all plants except the one in Saskatoon.

The Calgary and Vancouver projects are virtually complete. The major expansion of the Toronto brewery will be operational by the summer of 1985, despite construction delays caused by the Ontario brewing industry labour dispute.

Completion of the programme will provide the company with sufficient capacity to supply each provincial market. The larger plants will be equipped with modern packaging equipment, which will improve operating efficiencies and increase flexibility to meet changing market requirements.

Despite production problems resulting from the capital investment programme, the company was active during the year in the market place. Miller High Life in the distinctive Miller bottle was introduced in British Columbia, Alberta and Newfoundland in May 1984. The exclusive rip cap, which permits a regular bottle to be opened without the use of an opener, was introduced on certain brands in Saskatchewan in November 1984, Newfoundland in December 1984 and in Manitoba in January 1985.

In January 1985, Trilight was introduced in Alberta.

In late February and early March of 1985, Lite beer from Miller was launched nationally in all provinces, with the exception of Ontario, where the launch was delayed until late March as a result of the labour dispute. During the year, 355 ml aluminum cans were introduced in all provincial markets except Saskatchewan and the Maritimes, and 473 ml aluminum cans were launched in Ontario, Manitoba and British Columbia.

In April 1985, Carlsberg and Carlsberg Light in Ontario and Quebec were converted to a private mould bottle featuring a twist off crown.

It is anticipated that the current fiscal year will see a continuation of the high level of competition in the industry, with new brands and new packages being introduced on a regular basis.

The company was unable to obtain adequate price increases during the year to recover the ever increasing costs of production and overheads and, as a result, profit margins were not maintained. The beer market in western Canada was very price competitive, due to the importation of large quantities of United States beer and the development of a low priced segment. In Quebec, selling prices were not increased until March 11, 1985. The price increase in Ontario was not received until May 15, 1985, the first increase in 15 months.

As reported in last year's annual report, the company's labour contracts in Quebec and Ontario expired on December 31, 1984 and in the other provinces during the spring of 1985. It had been hoped that new labour agreements would be negotiated without disruptions to operations but, unfortunately, this has not been the case. Although new contracts were settled in Quebec and British Columbia without work stoppages, the major brewing companies in Ontario were closed from February 26 to March 25, 1985 as a result of a labour dispute. The brewing industry has been shut down by labour problems in Newfoundland since April 2, 1985 and in Alberta since May 7, 1985. The company regrets the labour disruptions which are occurring, as they weaken the industry's competitive position with other alcoholic beverages and exacerbate an already difficult situation. Acceptable levels of labour cost and continuity of operations are vital to the future success and economic health of the industry.

BREWING OPERATIONS–IRELAND

Financial Year Ended March 31	1985	1984	1983
Sales–hectolitres	328,000	264,000	247,000
Sales revenue	$54,703,000	$45,184,000	$48,059,000
Earnings before interest, foreign exchange and income taxes	$ 3,333,000	$ 2,105,000	$ 2,146,000
Foreign exchange loss	$ –	$ –	$ 702,000
Earnings before interest and income taxes	$ 3,333,000	$ 2,105,000	$ 1,444,000
Earnings per hectolitre	$10.16	$7.97	$5.85

Beamish & Crawford plc had an excellent year and reported significant increases in sales volume, sales revenue and earnings. Industry sales volume was relatively unchanged during the year, as there was little improvement in the general economic conditions and unemployment remained high. Company sales volume increased 24%, which reflected a continued increase in share of market. Sales of the company's lager brands, Carling Black Label and Carlsberg, continued to improve and were the major factor in the increased sales volume, which also benefitted from a five week strike at a major competitor. Sales revenue and earnings in Canadian dollars increased significantly from last year, despite the Irish punt being generally lower in value when compared to the Canadian dollar.

The trend in the Irish brewing industry away from stout and ale to lager continues. With its strong representation in the lager segment, the company is well positioned to take advantage of this trend and it is anticipated that results will continue to improve.

INTERNATIONAL DIVISION

Royalty income from the sale of Carling Black Label in overseas markets where it is produced under licence was $1,496,000, compared to $1,459,000 the previous year. Sales volume and the rate of royalty payments increased over last year, but were offset by unfavourable exchange factors on conversion of pound sterling royalties to Canadian dollars.

WINE OPERATIONS

Financial Year Ended March 31	1985	1984	1983
Sales–hectolitres	222,000	226,000	235,000
Sales revenue	$57,731,000	$59,348,000	$58,238,000
Earnings before interest and income taxes	$ 3,225,000	$ 5,596,000	$ 5,741,000
Earnings per hectolitre	$14.53	$24.76	$24.43

The total wine market in Canada grew by approximately 4% during the year, compared to an increase of 0.5% last year. Sales of table wine out-performed most other segments of the market and increased by 4%. White table wine continued past trends, increasing by 8%, and accounted for 64% of all table wine sales, compared to 62% last year. The new refreshment beverage category of cooler-type products gained a respectable 1.7% market share. All other major category segments declined from the previous year.

Sales volume of Canadian produced wines declined by 1%, and they now hold approximately 45% of the total market. This segment of the market continued to be under considerable downward pressure, as imported products remained very competitively priced due to the relatively low value of certain foreign currencies compared to the Canadian dollar. Some European countries also have significant wine surpluses and complex forms of subsidies for agricultural based products which result in abnormally low selling prices. These low selling prices prevented domestic producers from being able to increase prices to recover cost increases. Relative currency values and unfair foreign subsidy practices will likely continue to adversely affect sales of Canadian produced wine during the coming year.

Jordan & Ste-Michelle Cellars Ltd.'s sales volume declined by 2% from last year. Sales volume was lower in all regions of Canada except for British Columbia, which reported excellent growth in cider sales despite six new entries into that category. The company's share of the national wine market declined slightly, reflecting a lack of full participation in the growing Quebec market and lower sales in other regions. Lack of participation in the new cooler category was also a contributing factor to lower volume.

Sales revenue declined from last year as a result of the lower volume and the mix of products sold. Price increases to recover higher costs of raw materials, employee compensation, production and sales taxes and manufacturing expenses were difficult to obtain, due to price competition from subsidized imported products and from domestic producers attempting to maintain volumes. Direct manufacturing cost increases were held to inflationary rates, while marketing expenses were lower than last year, as advertising was reduced. As a result of the brewing industry's move away from the compact bottle, the company made a provision of $600,000 before tax to write off its supply of compact bottles used to package cider.

The company continued its programme of developing a complement of brands with primary consumer benefits which can be advertised on a national basis. Spumante Bambino, Maria Christina, Toscano and Interlude have responded well to this approach in all major markets. An innovative draught keg for Growers Cider was introduced during the year and met good licensee acceptance. Extension of the two litre bag-in-box to additional brands was favourably received by the consumer. Growers Cider, a successful British Columbia brand, performed very well as an advertised product in the refreshment beverage category, and distribution is being extended to Ontario.

The company is currently negotiating labour contracts for the Calgary and St. Catharines wineries. The contracts expired December 31, 1984 and March 31, 1985 respectively. The Surrey plant and St. Catharines plant clerical contracts run to December 31, 1985 and the Ontario retail contract to December 31, 1986. It is hoped that negotiations will be concluded without disruptions to operations.

OIL AND GAS OPERATIONS

Financial Year Ended March 31	1985	1984	1983
Sales–gas ($10^3 m^3$)	143,000	129,000	132,000
–oil and other (m^3)	87,000	82,000	70,000
Sales revenue	$23,376,000	$19,831,000	$16,169,000
Earnings before interest and income taxes	$10,015,000	$ 9,089,000	$ 1,389,000

Star Oil & Gas Ltd. had a satisfactory year and increased production of natural gas and crude oil. As a result of the increased production and higher selling prices, sales revenue increased by 18% over last year. Capital spending on exploration for and development of new reserves of crude oil and natural gas and on facilities for production increased by 25% to $10,994,000.

Natural gas production averaged 391 $10^3 m^3$ (13,878 mcf) per day before royalties, an increase of 10% over last year. The major part of this increase resulted from the company placing on production during November 1984 a portion of its reserves at Hatton in south-east Saskatchewan. This was the result of a new natural gas purchase contract with the Saskatchewan Power Corporation.

Production of crude oil and natural gas liquids averaged 239 m^3 (1,503 barrels) per day before royalties, an increase of 6% over last year. New oil wells were drilled at Benson, Steelman and Midale in south-east Saskatchewan and at Hayter in Alberta. Increased production also resulted from development work at Nipisi and Mitsue in Alberta.

In Canada, the company continued to acquire additional petroleum and natural gas leases and acquired an interest in 2,345 hectares (5,794 acres) in the oil producing areas of south-east Saskatchewan and 7,872 hectares (19,451 acres) in Alberta.

The company restricted its activities in the United States. One successful gas well was drilled in Oklahoma and an interest in 3 producing oil wells and certain undeveloped leases was purchased in the Deck Field in west Texas. During the year, Star's investment in the United States was written down by $1,060,000. This was the result of a decline in crude oil and natural gas prices in the United States and a decision to write off the cost of certain of the company's undrilled leases, due to uncertainty as to when or if they would be drilled.

In the current fiscal year, the company plans to continue its policy of reinvesting its cash flow and will increase capital spending by approximately 10%. In south-east Saskatchewan, the company will develop its existing oil leases and will acquire new lands. In south-west Saskatchewan, the company will participate in a development drilling programme to maintain its contracted gas deliveries. An active land acquisition and drilling programme for oil will be pursued in Alberta. Capital investment in the United States will be restricted to development drilling in the Deck Field area of Texas.

The oil and gas industry in Canada has been encouraged by a succession of changes in taxation and pricing policies by the Federal Government. In November 1984, a significant reduction in the minimum export price of natural gas allowed Canadian gas to become more competitive in the United States market. On January 1, 1985, the annual deduction from the amount of petroleum and natural gas revenue tax payable was increased from $250,000 to $500,000. On March 28, 1985, the most significant event occurred, which was the announcement of a new agreement regarding energy pricing and taxation between the Government of Canada and the Governments of the Provinces of British Columbia, Alberta and Saskatchewan. The following are the terms of the agreement which are most pertinent to the activities of Star.

Effective June 1, 1985, crude oil pricing will be deregulated and prices will be negotiated between the buyer and the seller. Prior to June 1, 1985, there have been basically two categories of crude oil prices in Canada. These were oil discovered prior to 1974 (old oil), which has been priced at $29.75 per barrel, and oil discovered after 1974 (new oil), which has been priced at $41.00 per barrel. As a result of the agreement, it is anticipated that the price of all oil will be at a level somewhere between the previous two prices. As approximately 60% of Star's oil production is classified as "old oil," Star should benefit from the price

change, depending upon where the new market price is established.

The petroleum and natural gas revenue tax on oil and gas production will be phased out over a three year period beginning January 1, 1986 and ending December 31, 1988. In addition, the petroleum and natural gas revenue tax will be eliminated on oil and gas production from wells drilled after April 1, 1985.

The Alberta border price of natural gas will remain at its current level until a new domestic natural gas pricing regime is introduced, on or before November 1, 1985. It is also possible that there may be further changes in provincial royalties, taxes and incentives.

While the effect of these changes on Star cannot be accurately quantified until such time as oil and gas prices are known, it is believed that it will be beneficial to Star's future results.

DRILLING ACTIVITY

	1985 Working Interest Wells			1984 Working Interest Wells		
	Total	Share	Royalty Interest Wells*	Total	Share	Royalty Interest Wells*
CANADA						
Gas	23	10.22	4	18	8.57	1
Oil	16	8.61	7	20	12.90	2
Dual zone oil and gas	1	0.12	–	2	0.26	–
Dry and abandoned	7	4.17	6	4	0.63	3
	47	23.12	17	44	22.36	6
UNITED STATES						
Gas	1	0.13	–	–	–	–
Oil	–	–	–	10	1.13	1
Dry and abandoned	3	0.70	1	2	0.14	–
	4	0.83	1	12	1.27	1

*Drilled at no cost to Star under agreements with other companies.

As at March 31, 1985, Star held an interest in gross and net hectares of land as follows:

	PROVED			UNPROVED		
	Gross	Net	Royalty*	Gross	Net	Royalty
CANADA						
Alberta	47,910	14,664	18,540	115,313	26,265	1,724
British Columbia	3,052	957	1,388	38,118	11,234	406
Saskatchewan	42,638	15,721	145	38,749	24,026	76
Eastcoast Offshore	–	–	–	–	–	74,260
Total Canada	93,600	31,342	20,073	192,180	61,525	76,466
UNITED STATES						
Alaska	2,072	28	–	–	–	–
Colorado	–	–	–	97	24	–
Kansas	259	24	–	–	–	–
Montana	259	16	–	4,200	4,200	62
North Dakota	163	32	–	686	208	–
Oklahoma	1,656	236	–	795	209	–
Pennsylvania	299	30	–	–	–	–
Texas	1,264	230	16	1,750	924	–
West Virginia	320	51	–	–	–	–
Wyoming	–	–	–	9,994	2,357	198
Total United States	6,292	647	16	17,522	7,922	260
TOTAL	99,892	31,989	20,089	209,702	69,447	76,726

*The company is paid a royalty from 3% to 15% of production income from producing wells drilled by other companies at no cost to Star.

STAR OIL & GAS LTD. MAIN PRODUCTION AREAS

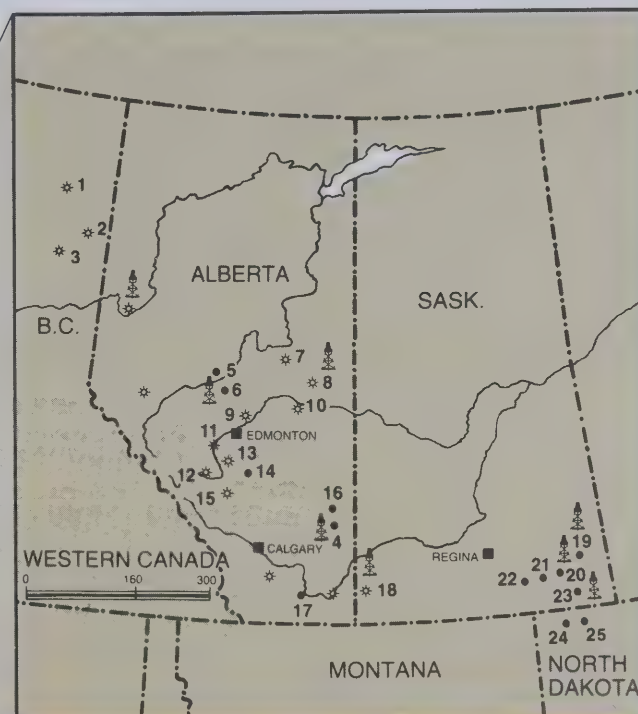
• OIL PRODUCTION ☼ NATURAL GAS PRODUCTION ACTIVE PROJECTS

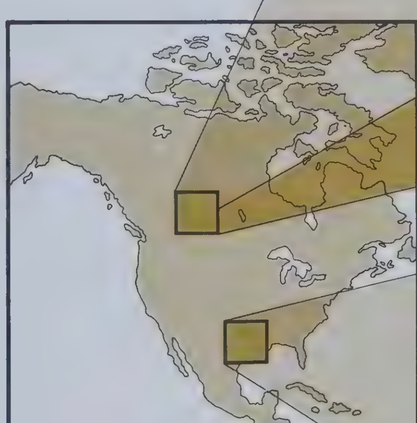
WESTERN CANADA

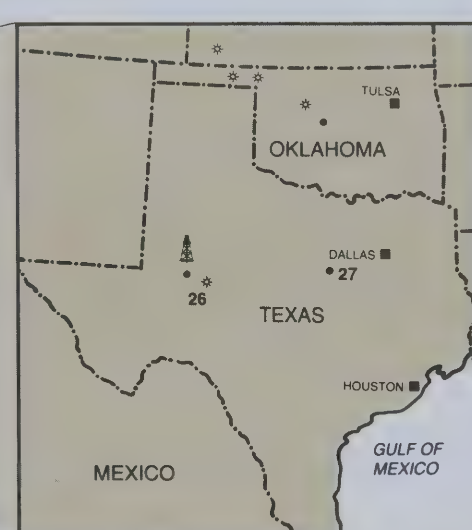
B.C.
1 YOYO
2 DAHL
3 RIGEL

ALBERTA
4 ESTHER
5 NIPISI
6 MITSUE
7 MARTEN HILLS
8 HEART LAKE
9 OPAL-REDWATER
10 BELLIS
11 PEMBINA
12 HOADLEY
13 WESTEROSE
14 CLIVE
15 SYLVAN LAKE-PREVO
16 HAYTER
17 TABER

SASKATCHEWAN
18 HATTON
19 PARKMAN
20 BENSON
21 MIDALE
22 WEYBURN
23 STEELMAN







UNITED STATES

NORTH DAKOTA
24 COLUMBUS
25 PORTAL

TEXAS
26 DECK
27 IVADELL

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

MANAGEMENT

Management is responsible for the preparation of the consolidated financial statements of Carling O'Keefe Limited and for their integrity and objectivity. The statements have been prepared on the historical cost basis in accordance with Canadian generally accepted accounting principles, which conform in all material respects with international standards, and which have been applied on a consistent basis, except for foreign currency translation as described in Note 2. The significant accounting policies followed are described in Note 1 to the financial statements.

Management is further responsible for maintaining a system of internal accounting controls, designed to provide reasonable assurance that the books and records reflect the transactions of the Corporation and that its established policies and procedures are carefully followed. The system is continually reviewed for its effectiveness and is augmented by written policies and guidelines, the careful selection and training of qualified personnel and a programme of internal audit.

AUDITOR

Price Waterhouse is appointed by the shareholders as Auditor to examine the consolidated financial statements of Carling O'Keefe Limited and report thereon. Its examination is conducted in accordance with generally accepted auditing standards and includes a review of internal accounting controls and tests of transactions. The Report of the Auditor appears on Page 23.

AUDIT COMMITTEE

The Board of Directors, through the Audit Committee of the Board, reviews with Price Waterhouse the scope of its audit and the accounting principles to be applied in financial reporting and is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements. The Audit Committee, which is composed entirely of non-employee Directors, meets regularly with Price Waterhouse, representatives of management and internal auditors to review the activities of each and to ensure that each is properly discharging its responsibilities. To ensure complete independence, Price Waterhouse has full and free access to meet separately with the Audit Committee, to discuss the results of its examination and its opinion on the adequacy of internal accounting controls and the quality of financial reporting.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

The following analysis and explanatory comments relating to the operations of the Corporation should be read in conjunction with the consolidated financial statements, financial summaries and information on operations by segment which are provided elsewhere in this report.

RESULTS OF OPERATIONS

Consolidated earnings from operations decreased during the fiscal year ended March 31, 1985, reflecting lower sales volume and lower profit margins in the Canadian brewing and wine operations. Brewing is the Corporation's principal business, and in 1985 it contributed 91% of consolidated sales revenue and 38% of earnings from operations before interest and income taxes. The level of contribution of the brewing operations to consolidated sales revenue has remained fairly constant over the three year period. The contribution to earnings from brewing operations was 38% in 1985, reflecting the downturn in the Canadian brewing operations, 83% in 1984 and 90% in 1983. The consolidated return on average capital employed declined in 1985 to 6.7%, after having shown a steady improvement for several years.

Effective April 1, 1983, the Corporation prospectively changed its accounting policy for foreign currency translation to conform to revised generally accepted accounting principles in Canada. The impact on fiscal 1983 is shown in Note 12 to the financial statements, which reflects generally accepted accounting principles in the United States.

INCOME

Consolidated sales revenue decreased by $33,910,000, or 4%, in 1985, compared to an increase of $164,239,000, or 21%, in 1984 and an increase of $140,094,000, or 22%, in 1983. The reduction in sales revenue in 1985 was due to lower sales volume partially offset by increased selling prices. In 1984, more than half of the increase in sales revenue was attributable to higher sales volume, whereas higher selling prices accounted for the major portion of the increase in 1983. The Corporation's share of the Canadian beer market declined in 1985 after several years of improvement. The industry volume was relatively unchanged over the three year period. Increased selling prices were required to cover increased production and sales taxes and higher manufacturing, marketing, distribution and administrative costs.

Investment and other income during the period reflected fluctuations in the amount of funds available for short term investment and a reduction in the amount of discount recorded on the receivable from the sale of trade marks.

COSTS

Operating costs in all segments of the business reflected the general rise in cost of materials and services purchased, employee compensation and the effect of changes in sales volume.

Production and sales taxes decreased by $7,765,000,

or 2%, in 1985, compared to increases of 22% and 24% in 1984 and 1983 respectively. The changes reflected increased rates of taxation, as the major portion of the taxes are indexed, and changes in sales volume.

Raw materials and manufacturing costs increased by $25,087,000, or 9%, compared to increases of $43,742,000, or 19%, in 1984 and $28,968,000, or 14%, in 1983. Costs during the period reflected fluctuations in sales volume, and higher unit costs for packaging materials and employee compensation. Costs in 1985 and 1984 included a provision of $20,600,000 and $6,600,000 respectively for the write-off of compact bottles. Oil and gas assets in the United States were written down by $1,060,000 and $4,900,000 in fiscal 1985 and 1983 respectively.

Marketing and distribution costs increased by $11,838,000, or 5%, in 1985, which compared to increases of 24% and 16% in 1984 and 1983 respectively. The level of marketing expenditures during the period reflected the significantly increased competition in the brewing industry for specific marketing vehicles related to sports activities, and costs related to the introduction of new brands. Distribution costs reflected higher employee compensation and energy costs, as well as the effect of changes in sales volume.

Administrative and general costs increased by $3,440,000, or 9%, compared to 5% and 26% in 1984 and 1983 respectively. The 1985 increase reflected the cost of a strengthened management organization in the brewing operations, increased computer development and general increases in line with inflation. The 1983 increase included Century Importers, Inc. for the first time.

Interest costs increased in 1985, after having declined during the previous two years. The higher cost in 1985 reflected borrowings to finance the major capital expenditure programme of the Canadian brewing operations. The decline in interest cost in 1984 and 1983 reflected lower borrowings as a result of cash flow from operations. Foreign exchange costs in 1983 reflected the increase in the value of the Canadian dollar relative to the Irish punt on the translation of the financial statements of Beamish & Crawford plc, and a cost related to the translation of the foreign currency receivable from the sale of trade marks. In fiscal 1984, the method of accounting for translation of self-sustaining foreign subsidiaries was changed, as disclosed in Note 2 to the financial statements.

It should be noted that results of operations from one quarter to the next are not comparable, nor are they indicative of annual results, due to the seasonal nature of the alcoholic beverage industry, which traditionally has greater sales and earnings in the summer months. The third quarter of 1985 and the fourth quarter of 1984 included the provisions for the write-off of compact beer bottles. The lower earnings in the fourth quarter of 1985 reflected a reduced contribution from the Canadian brewing operations, which resulted from lower sales volume, lower gross profit per hectolitre and increased marketing expenditures.

FINANCIAL POSITION

Consolidated net cash at March 31, 1985 was $1,273,000, a decrease of $9,461,000 during the year. A comparative consolidated statement of changes in financial position appears on Page 17.

In 1985, the Corporation utilized net cash of $59,164,000 in its operations. Although funds were released from operating working capital during the period, earnings were lower than the previous year and it was necessary to increase long term borrowings in order to finance the significantly higher capital expenditure programme. In 1984, net cash utilized in operations was $7,815,000, as higher earnings were sufficient to finance most of the increase in operating working capital and an increased capital expenditure programme. In 1983, the Corporation's operations generated net cash of $61,152,000 as cash from earnings and a reduction in operating working capital exceeded the capital expenditures.

Consolidated working capital, excluding net cash, used in the Corporation's operations decreased in 1985 by $19,779,000, following an increase of $11,875,000 in 1984 and a decrease of $32,738,000 in 1983. An analysis of these changes is shown on Page 18. The current ratio at March 31, 1985 was 1.1:1, compared to 1.4:1 in 1984 and 1.6:1 in 1983.

Fluctuations in sales revenue during the period did not result in a comparable change in accounts receivable. Changes in beer sales volume in Ontario do not result in a comparable change in receivables, as sales are made direct to the consumer for cash. Income taxes recoverable reflected the significant levels of capital expenditures which result in accelerated depreciation for income tax purposes, together with fluctuations in earnings. The inventory value in 1985 was similar to 1984, following a sizeable increase in 1984, due to a planned increase in quantities to meet sales demand, as well as higher unit costs. Returnable containers in 1985 included private mould bottles at amortized cost, but the compact bottles had been written off.

Accounts payable and accrued liabilities increased, reflecting higher levels of marketing and capital expenditures in the fourth quarters of 1985 and 1984, together with higher production volume in 1984. In addition, as in previous years, increases have occurred due to higher unit costs for packaging materials and marketing costs. The 1984 amount included the $6,600,000 provision for the write-off of surplus compact beer bottles. In 1985, the liability due to customers for deposits on returnable containers has been recorded, reflecting the change from the industry compact bottle to company owned private mould bottles.

Funds from operations during the three year period were used in the acquisition of property, plant and equipment and Century Importers, Inc.

Capital expenditures for the year were $124,457,000, compared to $73,800,000 in 1984 and $33,424,000 in 1983. The major capital expenditures during the period were in the Canadian brewing operations,

with significant expenditures to renew and expand production capacity at the breweries in Vancouver, British Columbia; Calgary, Alberta and Toronto, Ontario. The Toronto expansion project is planned to be substantially complete and operating by the end of the first quarter of fiscal 1986. The cost of the Toronto expansion is now estimated to be approximately $90,000,000, of which $20,000,000 will be spent early in fiscal 1986. Details of capital expenditures by business segment are provided on Page 25.

The Corporation has projected consolidated capital expenditures of approximately $85,000,000 for the 1986 fiscal year. The reduced level of capital expenditures in 1986 will reflect the completion of the major expansion programme in the Canadian brewing operations.

Lines of credit have been arranged which are considered to be adequate to meet the anticipated operating and capital expenditure requirements for the coming year. During fiscal 1985, the Corporation entered into bank loan arrangements for $125,000,000 of floating rate revolving credits, which mature at the earliest in fiscal years 1987 and 1988 and which may be extended. As at March 31, 1985, $62,000,000 had been drawn down under these facilities.

The Corporation reduced its other long term debt by meeting its obligations under the terms of the debenture covenants.

The increased unfunded liability for pensions reflected the addition of the hourly employees in Ireland to the contributory funded pension plan during 1985, and improvements in pension benefits for all pensioners and salaried employees in Canada, effective January 1, 1984. The actuarial market value of the Canadian pension fund assets exceeded the vested and non-vested accrued benefit liabilities as at December 31, 1984. However, the addition of the hourly employees to the Irish plan resulted in an unfunded vested liability for past service of $1,597,000, which has been recorded in long term liabilities and as a deferred charge.

The Corporation's cash flow during a year follows the seasonality of the brewing operations, which have higher sales in the summer months and in the December holiday season. During the winter period, maintenance programmes and capital projects are carried out to coincide with reduced brewing activities. In addition, there is a cash flow fluctuation within each month, due to the timing of receipts and payments, which gives a relatively favourable cash position at each month end.

IMPACT OF INFLATION

The Canadian Institute of Chartered Accountants (CICA) has recommended the inclusion on an experimental basis of supplementary information relating to current cost. The method advocated by the CICA emphasizes the maintenance of operations at the present level and configuration using today's costs for property, plant and equipment, inventories and financial liabilities.

Future decisions regarding the replacement of property, plant and equipment and the manner of replacement will be made in light of economic, regulatory, technological and competitive conditions existing at the time. Replacement or modification of operating assets may occur, when or if required, provided profitability is sufficient to support the replacement cost. The assumption of maintaining operating capability is particularly questionable in the context of the oil and gas operations. The location and extent of reserves are unique and, once depleted, cannot be exactly replaced. Even if new reserves could be found, the current cost of finding the equivalent reserves would be difficult to quantify.

The Corporation recognizes that its production facilities were acquired over a number of years and that any adjustment to reflect current cost information would result in a significant increase in the value of property, plant and equipment and a corresponding increase in the depreciation charge for the year. Due to the nature of the business, inventories and cost of products sold would increase only marginally if current costs were used.

The CICA also recommends disclosure of certain financing related adjustments which reflect the favourable impact of maximizing net monetary liabilities in an inflationary period. The Corporation believes these adjustments are difficult to understand, have questionable validity and detract from the basic objectives of current cost reporting.

The Corporation has decided not to participate publicly in the CICA experiment at this time, as it believes the results prepared using the CICA methodology are of questionable relevance and usefulness, but will continue to monitor the situation. The accounting bodies in the United Kingdom and the United States, who have been dealing with this matter for a longer time, are continuing to review their disclosure requirements in order to determine the usefulness of current cost accounting.

CARLING O'KEEFE LIMITED

(INCORPORATED UNDER THE LAWS OF ONTARIO)

CONSOLIDATED STATEMENT OF EARNINGS

(IN THOUSANDS OF DOLLARS)

	YEAR ENDED MARCH 31		
	1985	1984	1983
INCOME			
Sales revenue	$914,556	$948,466	$784,227
Investment and other income	3,600	6,512	5,554
	918,156	954,978	789,781
COSTS			
Production and sales taxes	327,369	335,134	274,443
Raw materials and manufacturing	304,196	279,109	235,367
Marketing and distribution	228,007	216,169	174,002
Administrative and general	39,602	36,162	34,500
Interest on long term debt	1,578	522	1,094
Other interest	707	237	903
Foreign exchange (Note 2)	–	–	863
	901,459	867,333	721,172
EARNINGS BEFORE INCOME TAXES	16,697	87,645	68,609
Income taxes (Note 10)			
Current	(7,063)	23,581	27,142
Deferred	8,066	9,744	3,398
	1,003	33,325	30,540
EARNINGS FOR THE YEAR	$ 15,694	$ 54,320	$ 38,069
EARNINGS PER COMMON SHARE FOR THE YEAR			
Preference share dividends	$ (2,011)	$ (2,022)	$ (2,037)
Earnings for the year applicable to 21,762,295 common shares outstanding	$ 13,683	$ 52,298	$ 36,032
Earnings per common share	63¢	$2.40	$1.65

CARLING O'KEEFE LIMITED

CONSOLIDATED BALANCE SHEET

(IN THOUSANDS OF DOLLARS)

	MARCH 31	
	1985	1984
ASSETS		
CURRENT ASSETS		
Cash and short term investments	$ 4,334	$ 11,705
Accounts receivable	48,566	46,505
Income taxes recoverable	9,730	528
Inventories (Note 4)	97,273	99,716
Prepaid expenses	8,430	6,745
Total current assets	168,333	165,199
PROPERTY, PLANT AND EQUIPMENT (NOTE 5)	500,757	384,460
Less accumulated depreciation and depletion	153,169	139,978
	347,588	244,482
OTHER ASSETS (NOTE 6)	38,969	39,975
	$554,890	$449,656
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank indebtedness and notes payable	$ 3,061	$ 971
Accounts payable and accrued liabilities	101,466	90,951
Due to customers for returnable containers	21,532	–
Production and sales taxes	18,053	19,355
Dividends payable	3,113	2,681
Total current liabilities	147,225	113,958
LONG TERM LIABILITIES (NOTE 7)	67,892	6,288
DEFERRED INCOME TAXES	59,780	51,851
COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 11)		
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)		
Preference shares	41,520	41,770
Common shares	78,357	78,357
	119,877	120,127
Retained earnings	163,863	160,087
Cumulative translation adjustments (Note 2)	(3,747)	(2,655)
Total shareholders' equity	279,993	277,559
	$554,890	$449,656

APPROVED BY THE BOARD

S. Roderick McInnes, C.A., Director

William J. M. Henning, Q.C., Director

CARLING O'KEEFE LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(IN THOUSANDS OF DOLLARS)

	YEAR ENDED MARCH 31		
	1985	1984	1983
CASH PROVIDED BY (USED FOR) OPERATIONS			
Earnings for the year	$ 15,694	$ 54,320	$ 38,069
Items included in earnings not requiring an outlay of cash			
Depreciation, depletion and amortization	20,044	14,964	19,493
Deferred income taxes	8,066	9,744	3,398
Other	412	629	941
	44,216	79,657	61,901
Decrease (increase) in operating working capital	19,779	(11,875)	32,738
Disposal of property, plant and equipment and other assets	1,672	1,031	1,096
Cash provided by operations	65,667	68,813	95,735
Additions to property, plant and equipment	124,457	73,800	33,424
Additions to other assets	374	2,828	1,159
Cash provided by (used for) operations	(59,164)	(7,815)	61,152
CASH PROVIDED BY (USED FOR) FINANCING AND INVESTMENT ACTIVITIES			
Current portion of other assets	1,797	–	1,785
Long term liabilities–net	60,074	(2,868)	(2,984)
Purchase of shares in subsidiary company (Note 3)	–	–	(9,320)
Dividends			
Preference shares	(2,011)	(2,022)	(2,037)
Common shares	(10,011)	(8,052)	(5,658)
Purchase of preference shares	(146)	(144)	(111)
Cash provided by (used for) financing and investment activities	49,703	(13,086)	(18,325)
INCREASE (DECREASE) IN NET CASH	(9,461)	(20,901)	42,827
NET CASH AT BEGINNING OF YEAR	10,734	31,635	(11,192)
NET CASH AT END OF YEAR	$ 1,273	$ 10,734	$ 31,635
Comprised of			
Cash and short term investments	$ 4,334	$ 11,705	$ 32,553
Bank indebtedness and notes payable	3,061	971	918
	$ 1,273	$ 10,734	$ 31,635

Operating working capital consists of working capital excluding cash, short term investments, bank indebtedness and notes payable.

CARLING O'KEEFE LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(IN THOUSANDS OF DOLLARS)

	YEAR ENDED MARCH 31		
	1985	1984	1983
Balance at beginning of year	$160,087	$115,735	$ 85,222
Earnings for the year	15,694	54,320	38,069
Excess of carrying value over cost of preference shares purchased for cancellation	104	106	139
	175,885	170,161	123,430
DIVIDENDS			
Preference			
$2.20 per Series A share and $2.65 per Series B share	2,011	2,022	2,037
Common	10,011	8,052	5,658
	12,022	10,074	7,695
Balance at end of year	$163,863	$160,087	$115,735
Dividends per common share	46¢	37¢	26¢

CONSOLIDATED ANALYSIS OF CHANGES IN OPERATING WORKING CAPITAL

(IN THOUSANDS OF DOLLARS)

	YEAR ENDED MARCH 31		
	1985	1984	1983
Accounts receivable	$ (2,061)	$ 1,371	$ 707
Income taxes recoverable	(9,202)	(20,897)	16,629
Inventories	2,443	(22,253)	(1,156)
Prepaid expenses	(1,685)	(1,356)	(988)
Accounts payable and accrued liabilities	10,515	30,039	14,004
Due to customers for returnable containers	21,532	–	–
Production and sales taxes	(1,302)	1,028	3,111
Dividends payable	432	651	431
Change in cumulative translation adjustments	(893)	(458)	–
Decrease (increase) in operating working capital	$ 19,779	$ (11,875)	$ 32,738

CARLING O'KEEFE LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada, which conform in all material respects with those in the United States, except as disclosed in Note 12.

Principles of Consolidation

The principal operating subsidiaries are listed on Page 32. Purchase accounting has been followed for all acquisitions. For certain subsidiaries acquired prior to April 1, 1974, the excess of the cost of shares over the value of the underlying net tangible assets at the time of acquisition is carried at cost and is not amortized. Intangible assets acquired subsequently and sports franchises are amortized over periods not exceeding forty years.

Foreign Exchange

Foreign currency accounts of self-sustaining foreign subsidiaries are translated into Canadian dollars as follows: assets and liabilities at exchange rates in effect at the balance sheet dates; unrealized translation adjustments are reflected in shareholders' equity; income and costs are translated at average rates of exchange during the year. All other foreign exchange gains and losses are included in earnings.

Inventories

Inventories of beverage products, materials and supplies are stated at the lower of average cost and net realizable value. Returnable containers are recorded at amortized cost, which is lower than new replacement cost.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided on the straight line basis at the following rates per annum:

Buildings	2½%-6⅔%
Machinery and equipment	6⅔%-10%
Motor vehicles	10%-25%

Oil and gas assets are accounted for using the full cost method, whereby all costs of exploration and development are capitalized on a country by country basis. Such capitalized costs, net of amortization, cannot exceed net revenues from estimated future production of proved reserves at current prices and costs and the estimated fair market value of properties. Costs are amortized against income using the unit of production method based on proved oil and gas reserves.

Gains or losses on disposal of brewery, winery and significant oil and gas assets are included in earnings.

Other Assets

Other assets are recorded at cost or amortized cost.

Pensions

Current service costs are charged to operations as they accrue. Prior service costs arising from amendments to the plans and actuarial gains or losses are charged to operations generally over periods up to fifteen years.

Marketing Costs

Marketing costs, including those related to the introduction of new brands, are charged to operations during the year in relation to sales and are expensed by the end of the year in which the cost is incurred, except for the costs of certain rights which are deferred and amortized over the terms of the respective contracts.

Investment Tax Credits

Net investment tax credits relating to capital expenditures are accounted for as a reduction of income tax expense in the year earned.

2. CHANGE IN ACCOUNTING POLICY

Effective April 1, 1983, the Corporation prospectively changed its accounting policy for foreign currency translation to conform with the recommendations of the Canadian Institute of Chartered Accountants and Statement 52 of the Financial Accounting Standards Board in the United States. The change affects the method of translating financial statements of self-sustaining

foreign subsidiaries, primarily property, plant and equipment. As a result, unrealized foreign exchange translation gains and losses are included as an adjustment to shareholders' equity. The change had no significant effect on the consolidated financial statements for the years ended March 31, 1985 and 1984.

The cumulative translation adjustment included in shareholders' equity resulting from self-sustaining foreign subsidiaries is as follows:

	1985	1984
Balance at beginning of year	$2,655,000	$ —
Translation adjustments for the year	1,092,000	2,655,000
Balance at end of year	$3,747,000	$2,655,000

In prior years, all foreign currency accounts were translated into Canadian dollars as follows: current accounts at exchange rates in effect at the balance sheet date; other balance sheet accounts and depreciation expense at historical rates of exchange; income and other costs at average rates of exchange during the year. The resulting exchange gains or losses were included in earnings.

3. ACQUISITION

Effective April 1, 1982, the Corporation acquired from an associated company all of the outstanding shares of Century Importers, Inc. for $6,235,000 in cash and assumed a working capital deficiency of $3,085,000. The excess of cost of shares over the underlying net tangible assets acquired amounted to $9,188,000.

4. INVENTORIES

	1985	1984
Beverage products, finished and in process	$47,523,000	$51,739,000
Materials and supplies	27,633,000	24,377,000
Returnable containers	22,117,000	23,600,000
	$97,273,000	$99,716,000

Private mould bottles are carried at amortized cost and the liability for returnable containers held by customers is recorded at deposit value and disclosed separately. Raw materials and manufacturing costs included a charge of $20,600,000 in 1985 for the write-off of compact bottles in inventory and in the hands of customers.

5. PROPERTY, PLANT AND EQUIPMENT

	1985		1984	
	Cost	Accumulated depreciation and depletion	Cost	Accumulated depreciation and depletion
Land	$ 9,164,000	$ —	$ 8,471,000	$ —
Buildings	138,593,000	31,788,000	103,057,000	29,671,000
Machinery and equipment	228,983,000	78,448,000	162,863,000	73,800,000
Motor vehicles	21,727,000	10,901,000	19,283,000	9,867,000
Oil and gas assets	97,773,000	29,677,000	86,491,000	24,664,000
Leasehold improvements	4,517,000	2,355,000	4,295,000	1,976,000
	$500,757,000	$153,169,000	$384,460,000	$139,978,000

6. OTHER ASSETS

	1985	1984
Sports franchises, less amortization $1,971,000 (1984–$1,641,000)	$11,273,000	$11,603,000
Deferred charges and other investments	6,668,000	7,051,000
Cost of shares of subsidiaries in excess of underlying net tangible asset value at acquisition, less amortization $1,096,000 (1984–$803,000)	21,028,000	21,321,000
	$38,969,000	$39,975,000

7. LONG TERM LIABILITIES

	1985	1984
Sinking fund debentures		
Series D 5½% due April 1, 1986	$ 800,000	$ 1,600,000
Series E 5½% due April 1, 1989	3,455,000	3,831,000
Term bank loans	62,000,000	—
Obligations under capital leases	83,000	200,000
Advances under gas contracts	1,511,000	1,782,000
	67,849,000	7,413,000
Less amount included in current liabilities	1,554,000	1,125,000
	66,295,000	6,288,000
Unfunded pensions (See Note 8)	1,597,000	—
	$67,892,000	$ 6,288,000

During 1985, the Corporation entered into bank loan arrangements for $125,000,000 of floating rate revolving credits, which mature at the earliest in fiscal years 1987 and 1988 and which may be extended. As at March 31, 1985, $62,000,000 had been drawn down under these arrangements. The average interest rate was 10.8% during fiscal 1985 and 11.1% as at March 31, 1985.

Obligations under capital leases are disclosed in Note 11.

Principal payments on long term liabilities are as follows: 1986 – $1,554,000; 1987 – $13,279,000; 1988–$51,279,000; 1989–$1,279,000; 1990–$279,000.

8. PENSIONS

The Corporation and its subsidiaries maintain defined benefit pension plans for employees, which provide for pensions based on length of service and level of remuneration, and generally fund pensions with independent trustees in accordance with legal requirements. Certain supplementary pensions are unfunded and charged to operations when paid. Based on recent independent actuarial valuations, the actuarial present value of accumulated plan benefits totalled $125,967,000, most of which was for vested employees. The weighted average assumed rate of return used in determining present value was 8%. The actuarial market value of the assets of the pension plans was $138,204,000. The unfunded pension liability of $18,426,000, which includes unearned future benefits and the vested liability of $1,597,000, is being charged to operations generally over periods up to fifteen years, as described in Note 1. Total pension expense for the year ended March 31, 1985 was $7,649,000, (1984–$6,997,000; 1983–$7,852,000).

9. CAPITAL STOCK

	1985	1984
Authorized		
830,407 preference shares, issuable in series		
an unlimited number of common shares		
Issued		
433,745 $2.20 cumulative redeemable preference shares, Series A	$21,687,000	$21,687,000
396,662 $2.65 cumulative redeemable preference shares, Series B (1984–401,662)	19,833,000	20,083,000
	$41,520,000	$41,770,000
21,762,295 common shares	$78,357,000	$78,357,000

The Series A and B preference shares are redeemable at the option of the Corporation at $53.00 and $52.50 per share respectively. During the year ended March 31, 1985, 5,000 Series B shares were purchased on the open market for cancellation (1984–5,000; 1983–5,000).

Rothmans Investments Limited, a wholly owned subsidiary of Rothmans of Pall Mall Canada Limited, is the owner of record of 50.1% of the Corporation's common shares.

10. INCOME TAXES

The difference between a basic income tax rate of 50% and the effective income tax rate based on income tax legislation is accounted for as follows:

	1985	1984	1983
Income taxes at basic rate	$ 8,349,000	$43,822,000	$34,304,000
Incentives	(1,254,000)	(6,328,000)	(4,073,000)
Investment tax credits	(4,626,000)	(2,500,000)	(992,000)
Alberta Royalty Tax Credit	(1,750,000)	(2,066,000)	(2,712,000)
United States oil and gas write down	530,000	—	2,450,000
Foreign exchange	—	—	438,000
Other–net	(246,000)	397,000	1,125,000
Income taxes–consolidated statement of earnings	$ 1,003,000	$33,325,000	$30,540,000
Effective income tax rate	6%	38%	45%

Incentives include manufacturing and processing credits, inventory allowances and resource and depletion allowances, net of royalties.

Deferred income taxes primarily reflect timing differences between accounting and tax depreciation, less the provision for compact bottle write-off as at March 31, 1985.

11. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Corporation has commitments, including royalties payable under licensing agreements, capital expenditures and the purchase of television rights and agricultural products.

Commitments under operating lease obligations relate to sports facilities, warehouses, retail stores and offices. Containers and equipment leased under capital leases are included in their respective asset categories and are depreciated accordingly. The following table summarizes the minimum rental payments due after March 31, 1985.

Year Ending March 31	Capital Leases	Operating Leases	Total
1986	$ 92,000	$ 4,976,000	$ 5,068,000
1987	—	3,934,000	3,934,000
1988	—	3,058,000	3,058,000
1989	—	2,462,000	2,462,000
1990	—	2,127,000	2,127,000
Thereafter to 1999	—	5,920,000	5,920,000
Total minimum rental payments	92,000	$22,477,000	$22,569,000
Less imputed interest	9,000		
Obligations under capital leases	$ 83,000		

There are a number of outstanding claims and legal actions involving the Corporation. In the opinion of counsel, the outcome of these matters should have no material effect on the Corporation's financial position.

12. INFORMATION PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

Effective April 1, 1983, the Corporation prospectively changed its accounting policy for foreign currency translation, as set out in Note 2.

To conform with United States generally accepted accounting principles, earnings and earnings per common share for the year ended March 31, 1983, and the translation adjustment to shareholders' equity as at March 31, 1983, would have been as follows:

	1983
Earnings for the year as reported	$ 38,069,000
Adjustment for foreign currency translation previously expensed	591,000
Adjusted earnings for the year	$ 38,660,000
Adjusted earnings per common share	$1.68
Retained earnings reported as at March 31	$115,735,000
Cumulative translation adjustments	(2,061,000)
Adjusted retained earnings	$113,674,000

The Corporation has not capitalized interest of approximately $500,000 ($285,000 after tax) on the Toronto brewery expansion, which would have been capitalized under United States generally accepted accounting principles.

13. OTHER

The information on operations by segment is presented on Page 25.

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CHARTERED ACCOUNTANTS

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May 22, 1985

Auditor's Report

TO THE SHAREHOLDERS OF CARLING O'KEEFE LIMITED:

We have examined the consolidated balance sheet of Carling O'Keefe Limited as at March 31, 1985 and 1984 and the consolidated statements of earnings, changes in financial position, retained earnings and analysis of changes in operating working capital for each of the three years in the period ended March 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the results of operations, changes in financial position and changes in operating working capital of the Corporation for each of the three years in the period ended March 31, 1985 and its financial position as at March 31, 1985 and 1984, in accordance with generally accepted accounting principles applied, except for the change, with which we concur, in the method of accounting for foreign currency translation as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding years.

Price Waterhouse

Chartered Accountants

LINES OF BUSINESS

Carling O'Keefe Limited, through its subsidiaries, manufactures and sells brewery and wine products in Canada and brewery products in Ireland. It also owns a producing oil and gas company, which operates primarily in Canada. All subsidiaries are wholly owned.

Carling O'Keefe Breweries of Canada Limited is one of three major brewing companies which together account for approximately 96% of all Canadian beer sales. The company has 3,450 employees and operates seven breweries in Canada, with an annual production capacity of approximately 6,720,000 hectolitres. One plant is located in each of the Provinces of Newfoundland, Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia. In Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, the company and other Canadian brewers jointly own companies for the distribution of their products and pay their respective share of operating costs based on market share. In the Provinces of Quebec and Newfoundland, beer is distributed through independent distributors and company branches. The company manufactures and sells its own and licensed brands. Principal brands are Miller High Life, O'Keefe, Old Vienna, Carlsberg, Carlsberg Light, O'Keefe's Extra Old Stock and Carling Black Label. The company has recently launched Miller Lite. Exports of Old Vienna, O'Keefe and Cinci to the United States are distributed through Century Importers, Inc. The company owns Le Club de Hockey Les Nordiques, which operates the National Hockey League team in Quebec City, the American Hockey League team in Fredericton and the Quebec Major Junior League team in Quebec City. The company also owns the Argonaut Football Club, which operates the Canadian Football League team in Toronto.

Jordan & Ste-Michelle Cellars Ltd. has 300 employees and operates three wineries with a practical storage capacity of approximately 365,000 hectolitres. One winery is located in each of the Provinces of Ontario, Alberta and British Columbia. With the exception of sales through 33 company operated retail stores in Ontario, all sales are made through outlets operated by Provincial Liquor Boards. The company uses two trading styles, Jordan and Ste-Michelle. The principal brands are Maria Christina, Toscano, Spumante Bambino, Interlude and Falkenberg, as well as Growers Cider.

Star Oil & Gas Ltd. has 19 employees and is engaged in the exploration for and the development and production of oil and gas. The estimated proved developed and undeveloped net crude oil and natural gas liquids and natural gas reserves after royalties at March 31, 1985 were 651,000 cubic metres and 3,912,000,000 cubic metres respectively. These are located primarily in the Provinces of Alberta and Saskatchewan.

Beamish & Crawford plc has 350 employees and operates a brewery in Cork, Republic of Ireland, with an annual production capacity of approximately 290,000 hectolitres. The Irish beer market is dominated by one brewing company which accounts for approximately 87% of the industry, with the remaining market shared by Beamish & Crawford and one other brewer. Beer is distributed either through independent distributors or directly to retail outlets. Principal brands are Carling Black Label, Carlsberg and Bass.

Other income is derived from investments and from royalties under a licensing arrangement for the production and sale of Carling Black Label.

The Corporation is deemed to be foreign controlled under the Foreign Investment Review Act. As such, it may not acquire control of a Canadian business enterprise, nor establish a new unrelated business in Canada, without obtaining allowance of the investment pursuant to the Act.

FIVE YEAR FINANCIAL SUMMARY
INFORMATION ON OPERATIONS BY SEGMENT
(IN THOUSANDS OF DOLLARS)

	1985	1984	1983	1982	1981
SALES REVENUE					
Beer–Canada	$778,746	$824,103	$661,761	$535,329	$435,721
–Ireland	54,703	45,184	48,059	47,952	45,468
Wine	57,731	59,348	58,238	48,563	44,021
Oil and gas	23,376	19,831	16,169	12,289	12,138
Consolidated	$914,556	$948,466	$784,227	$644,133	$537,348
EARNINGS FROM OPERATIONS					
Beer–Canada	$ 4,821	$ 70,938	$ 61,881	$ 33,458	$ 23,078
–Ireland–operations	3,333	2,105	2,146	2,094	2,460
–foreign exchange	–	–	(702)	(1,432)	(1,207)
Wine	3,225	5,596	5,741	3,949	1,512
Oil and gas	10,015	9,089	1,389	3,907	5,729
	21,394	87,728	70,455	41,976	31,572
Corporate income (expense)–net	(2,412)	676	151	–	3,947
Interest expense	(2,285)	(759)	(1,997)	(4,242)	(3,098)
Income taxes	(1,003)	(33,325)	(30,540)	(14,960)	(12,636)
Consolidated	$ 15,694	$ 54,320	$ 38,069	$ 22,774	$ 19,785
IDENTIFIABLE ASSETS					
Beer–Canada	$393,799	$295,370	$217,740	$186,379	$165,752
–Ireland	28,675	23,050	24,859	23,988	21,875
Wine	58,534	57,680	56,032	55,867	52,801
Oil and gas	73,090	66,091	60,287	63,513	58,967
Corporate	792	7,465	31,367	11,930	18,103
Consolidated	$554,890	$449,656	$390,285	$341,677	$317,498
CAPITAL EXPENDITURES					
Beer–Canada	$107,548	$ 62,068	$ 23,428	$ 14,547	$ 14,714
–Ireland	1,762	1,106	1,052	980	923
Wine	4,153	1,855	1,920	2,619	2,050
Oil and gas	10,994	8,771	7,024	6,972	8,800
Consolidated	$124,457	$ 73,800	$ 33,424	$ 25,118	$ 26,487
DEPRECIATION AND DEPLETION					
Beer–Canada	$ 12,851	$ 9,162	$ 8,237	$ 7,106	$ 6,621
–Ireland	476	446	574	539	473
Wine	1,529	1,419	1,335	1,194	1,144
Oil and gas	4,565	3,312	8,722	3,535	2,367
Consolidated	$ 19,421	$ 14,339	$ 18,868	$ 12,374	$ 10,605

Earnings by segment represents sales revenue, less all operating expenses other than corporate costs, interest and income taxes. Identifiable assets are those that are used in the Corporation's operations in each industry. Corporate assets comprise cash, short term investments, receivable from sale of trade marks and mortgage receivable.

FIVE YEAR FINANCIAL SUMMARY

(UNAUDITED)
(IN THOUSANDS OF DOLLARS)

	1985	1984	1983	1982	1981
EARNINGS					
Earnings from operations	$ 15,694	$ 54,320	$ 38,069	$ 22,774	$ 19,785
Extraordinary item	–	–	–	–	10,500
Earnings for the year	$ 15,694	$ 54,320	$ 38,069	$ 22,774	$ 30,285
Dividends					
Preference	$ 2,011	$ 2,022	$ 2,037	$ 2,046	$ 2,062
Common					
Regular	$ 10,011	$ 8,052	$ 5,658	$ 4,352	$ 4,352
Special	$ –	$ –	$ –	$ 1,633	$ –
Earnings per common share					
Before extraordinary item	63¢	$2.40	$1.65	95¢	82¢
After extraordinary item	63¢	$2.40	$1.65	95¢	$1.30
Dividends per common share					
Regular	46¢	37¢	26¢	20¢	20¢
Special	–	–	–	7.5¢	–
BALANCE SHEET					
Current assets	$168,333	$165,199	$163,281	$135,243	$117,499
Current liabilities	147,225	113,958	102,556	84,607	77,716
Working capital	21,108	51,241	60,725	50,636	39,783
Property, plant and equipment–net	347,588	244,482	187,750	173,849	161,874
Other assets	38,969	39,975	39,254	32,585	38,125
Net assets	407,665	335,698	287,729	257,070	239,782
Long term debt	65,000	4,722	7,744	10,706	14,744
Other long term obligations	62,672	53,417	43,873	40,515	33,806
Preference shares	41,520	41,770	42,020	42,270	42,526
Common shares and retained earnings	$238,473	$235,789	$194,092	$163,579	$148,706
Current ratio	1.1	1.4	1.6	1.6	1.5
Debt to equity	19:81	2:98	3:97	5:95	7:93
Return on shareholders' equity	5.6%	21.1%	17.2%	11.5%	11.0%
Return on capital employed	6.7%	20.5%	15.0%	12.0%	11.0%
Book value per common share	$10.96	$10.83	$8.92	$7.52	$6.83

Return on shareholders' equity represents the earnings from operations divided by the average of the opening and closing balances of shareholders' equity.

Return on capital employed represents earnings from operations, before deferred income taxes and interest expense, divided by capital employed. Capital employed is the average of the opening and closing balances of shareholders' equity, interest bearing debt and other long term obligations, which includes deferred income taxes.

QUARTERLY FINANCIAL DATA

(UNAUDITED)

Summarized quarterly financial data for 1985 and 1984 (in thousands of dollars, except per share data) appear below.

	SALES REVENUE		GROSS PROFIT		EARNINGS		EARNINGS PER COMMON SHARE	
	1985	1984	1985	1984	1985	1984	1985	1984
First	$263,909	$240,866	$ 93,056	$ 87,049	$14,482	$15,843	$0.64	$0.70
Second	262,741	272,175	91,461	100,807	11,995	20,104	0.53	0.90
Third	223,082	241,318	51,058	85,030	(7,606)	13,391	(0.37)	0.60
Fourth	164,824	194,107	47,416	61,337	(3,177)	4,982	(0.17)	0.20
	$914,556	$948,466	$282,991	$334,223	$15,694	$54,320	$0.63	$2.40

Gross profit represents sales revenue, less production and sales taxes and raw materials and manufacturing costs.

SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

(UNAUDITED)

The following unaudited supplementary information relates to the Corporation's oil and gas producing activities.

METRIC CONVERSION

The Canadian petroleum industry utilizes the metric system. The following conversion factors are given to convert metric terms to the Imperial system of units:

TO CONVERT FROM		TO		MULTIPLY BY
Cubic metres	(m^3)	Barrels	(bbl)	6.3
Thousands of cubic metres	(10^3m^3)	Thousands of cubic feet	(mcf)	35.5
Hectares	(ha)	Acres	(ac)	2.5

ESTIMATED NET QUANTITIES OF PROVED OIL AND GAS RESERVES

	YEAR ENDED MARCH 31		
	1985	1984	1983
Crude oil and natural gas liquids (10^3m^3)			
Net proved reserves at beginning of year	725	749	695
Additions from drilling	38	39	41
Revisions of previous quantities and royalties	(46)	(3)	62
Production	(66)	(60)	(49)
Net proved reserves at end of year	651	725	749
Net proved developed reserves at end of year	651	725	749
Natural gas (10^6m^3)			
Net proved reserves at beginning of year	4,032	4,114	4,210
Additions from drilling	231	179	88
Revisions of previous quantities and royalties	(246)	(165)	(87)
Production	(105)	(96)	(97)
Net proved reserves at end of year	3,912	4,032	4,114
Net proved developed reserves at end of year	2,858	2,917	2,214

The Corporation's oil and gas reserves are substantially all located in Canada. Estimates of proved developed reserves were prepared by independent evaluators and are deemed to be those reserves which, to a high degree of certainty, are considered to be recoverable at commercial rates under present production methods and current operating conditions, prices and costs. Estimates of proved undeveloped reserves include only those reserves which are expected to be recovered on undrilled lands from new wells which are virtually certain of production when drilled. Proved developed and undeveloped reserves do not include probable reserves nor possible additional reserves which may be found by extensions of presently proved reservoirs or by new discoveries on presently held properties.

CAPITALIZED COSTS

The aggregate capitalized cost and accumulated depletion of oil and gas properties, more than 80% of which was related to proved properties, were:

	YEAR ENDED MARCH 31		
	1985	1984	1983
Proved and unproved properties	$ 97,773,000	$ 86,491,000	$ 77,463,000
Less accumulated depletion	29,677,000	24,664,000	21,026,000
	$ 68,096,000	$ 61,827,000	$ 56,437,000

Costs capitalized in oil and gas activities

	YEAR ENDED MARCH 31		
	1985	1984	1983
Property acquisition costs	$ 2,546,000	$ 2,162,000	$ 1,127,000
Exploration costs	616,000	393,000	1,742,000
Development costs	7,576,000	6,196,000	4,128,000
	$ 10,738,000	$ 8,751,000	$ 6,997,000

RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

	YEAR ENDED MARCH 31		
	1985	1984	1983
Sales revenue, net of royalties	$ 23,376,000	$ 19,831,000	$ 16,169,000
Less:			
Production costs	8,796,000	7,430,000	6,058,000
Depletion and depreciation	4,565,000	3,312,000	8,722,000
Income taxes	4,579,000	3,235,000	1,739,000
Results of operations from producing activities, excluding corporate overhead and interest costs	$ 5,436,000	$ 5,854,000	$ (350,000)

Production costs include lifting costs, petroleum and gas revenue taxes, as well as direct administration costs. Income taxes are net of the Alberta Royalty Tax Credit.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH INFLOWS FROM PROVED RESERVES

	YEAR ENDED MARCH 31		
	1985	1984	1983
Future net cash inflows	$417,960,000	$431,852,000	$389,523,000
Less:			
Production costs	129,136,000	163,224,000	153,051,000
Development costs	16,064,000	18,697,000	23,289,000
Income taxes	98,188,000	96,488,000	90,868,000
Future net cash inflows, undiscounted	174,572,000	153,443,000	122,315,000
Less 10% annual discount for estimated timing of net cash inflows	99,426,000	99,265,000	67,553,000
Standardized measure of discounted future net cash inflows	$ 75,146,000	$ 54,178,000	$ 54,762,000

The estimated future net cash inflows from existing proved reserves are calculated by applying year end prices and royalty rates to forecast future production volumes. Estimated production and development costs include future costs and expenditures necessary to produce existing proved reserves, assuming current cost levels. Income taxes are estimated by applying the statutory rates in effect at year end to the pre-tax net cash inflows adjusted for known permanent differences. Provincial tax credits and royalty rebates have been deducted from income taxes.

A 10% annual discount factor has been applied to the estimated timing of future net cash inflows to determine the amount of the discount. The discount was then deducted from estimated future net cash inflows to determine the Standardized Measure of Discounted Future Net Cash Inflows.

The Standardized Measure of Discounted Future Net Cash Inflows should not be considered to represent the fair market value of the Corporation's oil and gas properties.

The following are the principal changes in the Standardized Measure of Discounted Future Net Cash Inflows.

	YEAR ENDED MARCH 31		
	1985	1984	1983
Reserve additions from drilling, net of future production and development costs	$ 10,031,000	$ 5,197,000	$ 6,393,000
Changes in prior years' reserves			
Accretion of discount	9,171,000	8,919,000	7,481,000
Prices, production and development costs	25,089,000	2,163,000	11,480,000
Revision of quantities and royalties	(6,183,000)	(1,354,000)	(869,000)
Sales revenue, net of production costs and petroleum taxes	(14,580,000)	(12,401,000)	(10,111,000)
Change before income taxes	23,528,000	2,524,000	14,374,000
Income taxes	2,560,000	3,108,000	9,531,000
Change after income taxes	$ 20,968,000	$ (584,000)	$ 4,843,000

The changes in the Standardized Measure of Discounted Future Net Cash Inflows are calculated before income taxes, using year end selling prices, royalties and costs.

MARKET PRICE OF SHARES AND RELATED SECURITY HOLDER MATTERS

The common shares are listed on the Toronto, Montreal, Vancouver, New York and Amsterdam exchanges, using the symbol CKB. For Canadian income tax purposes, the valuation day (December 22, 1971) value was $7.50. There were 16,332 shareholders of record as at March 31, 1985.

The $2.20 Series A and $2.65 Series B preference shares are listed on The Toronto Stock Exchange. For Canadian income tax purposes, the valuation day (December 22, 1971) value was $32.00 and $36.50 respectively. There were 1,756 and 1,012 shareholders of record respectively as at March 31, 1985.

	FISCAL 1985				FISCAL 1984			
	FOURTH QUARTER Jan.1-Mar. 31	THIRD QUARTER Oct. 1-Dec. 31	SECOND QUARTER July 1-Sept. 30	FIRST QUARTER Apr. 1-June 30	FOURTH QUARTER Jan. 1-Mar. 31	THIRD QUARTER Oct. 1-Dec. 31	SECOND QUARTER July 1-Sept. 30	FIRST QUARTER Apr. 1-June 30
COMMON SHARES								
Toronto Stock Exchange								
High	$15.62	$16.87	$18.37	$19.12	$21.75	$24.12	$24.87	$23.25
Low	13.62	14.50	15.50	16.37	18.12	19.50	20.50	12.62
New York Stock Exchange (United States currency)								
High	$11.62	$12.75	$14.12	$14.87	$18.37	$19.50	$20.25	$19.00
Low	10.12	11.00	11.62	12.37	14.00	15.75	16.50	10.25
Dividends per common share	12.0¢	12.0¢	12.0¢	10.0¢	10.0¢	10.0¢	10.0¢	7.0¢
PREFERENCE SHARES								
Toronto Stock Exchange Series A								
High	$25.00	$24.25	$24.25	$23.75	$25.00	$25.00	$23.75	$24.75
Low	23.00	22.87	22.00	22.00	22.50	22.25	21.50	22.00
Series B								
High	$30.37	$29.25	$31.00	$28.25	$30.12	$29.00	$28.00	$30.00
Low	28.25	27.75	27.75	27.00	28.00	26.75	25.75	27.50

There are no restrictions on the export or import of capital which affect the remittance of dividends, interest or other payments to non-resident holders of the Corporation's securities.

Pursuant to the provisions of the Foreign Investment Review Act, the Corporation is deemed to be foreign controlled. As such, it may not acquire control of a Canadian business enterprise, nor establish a new unrelated business in Canada, without obtaining allowance of the investment pursuant to the Act.

The Act does not apply to the purchase of shares or securities of a corporation where such purchases would not give the purchasers control of the corporation.

Withholding taxes at the rate of 25% are imposed on the payment of dividends and interest to non-residents of Canada. Under certain tax treaties, including the Canada/United States tax treaty, such rate is reduced from 25% to 15%. Capital gains on disposals are not taxable in Canada if the United States security holder has no permanent establishment in Canada.

FORM 10-K

Carling O'Keefe Limited common shares are traded on The New York Stock Exchange and the Corporation, therefore, files an annual report on Form 10-K with The Securities and Exchange Commission in Washington, D.C. Shareholders may obtain a copy of this report by writing to the Vice President Legal and Secretary of the Corporation.

VERSION FRANÇAISE

Si vous désirez un exemplaire de la version française du présent rapport, veuillez en fair la demande par écrit au:

Vice-président, Affaires juridiques et secrétaire général
Carling O'Keefe Limitée
79 St. Clair Avenue East, Toronto
Canada M4T 1M6

CARLING O'KEEFE LIMITED

PRINCIPAL OPERATING SUBSIDIARY COMPANIES

CANADA

Carling O'Keefe Breweries of Canada Limited
Carling O'Keefe Breweries Ontario Limited
Carling O'Keefe Breweries Western Limited
La Brasserie O'Keefe Ltée
Jordan & Ste-Michelle Cellars Ltd.
Star Oil & Gas Ltd.

REPUBLIC OF IRELAND

Beamish & Crawford plc

UNITED STATES

Century Importers, Inc.

CHIEF EXECUTIVE OFFICERS OF PRINCIPAL OPERATING SUBSIDIARIES

S. RODERICK McINNES
Carling O'Keefe Breweries of Canada Limited

DONALD H. TWINER
Carling O'Keefe Breweries Ontario Limited

JOHN R. BARNETT
Carling O'Keefe Breweries Western Limited

EDWARD J. PRÉVOST
La Brasserie O'Keefe Ltée

RICHARD B. MITCHELL
Jordan & Ste-Michelle Cellars Ltd.

ARTHUR M. DEYHOLOS
Star Oil & Gas Ltd.

R. ANTHONY HALPIN
Beamish & Crawford plc

PETER CODD
Century Importers, Inc.

EXECUTIVE OFFICES

79 St. Clair Avenue East
Toronto, Canada M4T 1M6

AUDITOR

Price Waterhouse

SOLICITORS

Smith, Lyons, Torrance, Stevenson & Mayer

BANKERS

Bank of Montreal
The Royal Bank of Canada

REGISTRAR IN THE UNITED STATES

Morgan Guaranty Trust Company of New York

TRANSFER AGENT AND REGISTRAR IN CANADA

The National Victoria and Grey Trust Company

TRANSFER AGENT IN THE UNITED STATES

The Chase Manhattan Bank, N.A.

DIRECTORS

RALPH L. BEATTY, C.A.
Executive Vice President & Chief Financial Officer
Carling O'Keefe Limited, Toronto, Ontario

CONRAD M. BLACK, LL.L., M.A.
Chairman of the Board and
Chairman of the Executive Committee
Argus Corporation Limited, Toronto, Ontario

SIR ROBERT CRICHTON-BROWN, K.C.M.G.,C.B.E.,T.D.
Chairman of the Board
Rothmans International p.l.c., London, England

PIERRE DES MARAIS II†
President, Pierre Des Marais Inc., Montreal, Quebec

JOHN H. DEVLIN
Chairman of the Board
Rothmans of Pall Mall Canada Limited
Toronto, Ontario

VERNAL C. GERMAN, P.Eng.†
Company Director and Consultant
Toronto, Ontario

WILLIAM J. M. HENNING, Q.C.*
Senior Partner, Parlee
Edmonton, Alberta

I. LOYOLA MATTE
Company Director, Ottawa, Ontario

S. RODERICK McINNES, C.A.†
Chairman, President & Chief Executive Officer
Carling O'Keefe Limited, Toronto, Ontario

POUL J. SVANHOLM
President & Group Chief Executive
The United Breweries Ltd., Copenhagen, Denmark

JAMES G. TORRANCE, Q.C.*
Senior Partner, Smith, Lyons, Torrance, Stevenson & Mayer
Toronto, Ontario

LOUISE B. VAILLANCOURT*
Company Director, Outremont, Quebec

OFFICERS

S. RODERICK McINNES
Chairman, President & Chief Executive Officer

RALPH L. BEATTY
Executive Vice President & Chief Financial Officer

J. ANTHONY GAUNTLEY, M.C.
Vice President International

PETER JOHN YOUNG
Vice President Legal & Secretary

ALAN M. HODGE
Vice President & Treasurer

CAROL A. MUNRO
Assistant Secretary

*Member of the Audit Committee of the Board
†Member of the Pension and Compensation Committee of the Board

1984/85 Innovations: From rip-top bottle caps to easy carrying and dispensing wine containers; from one-third more cans to high-cone six packs; we're always innovating. New products too, like Spumante Bambino Gold and Interlude sparkling wines, Audace red and white table wines, as well as the light and refreshing Coola Bianca.

CARLING O'KEEFE LIMITED ANNUAL REPORT 1985